2\textsuperscript{nd} ACER Gas Target Model Workshop

2\textsuperscript{nd} ACER GTM workshop, Ljubljana, 19 March 2014
OPENING

2nd ACER Gas Target Model Workshop
19 March 2014

Welcome to ACER, Ljubljana
Visit to the City Museum of Ljubljana: oldest wooden wheel

- Join the visit (guided tour) to the City Museum in the lunch break (between 13:15 – 13:45)!
- 5 minutes walk from workshop venue, in the historical heart of Ljubljana
- Max group size: 30
- Interested participants please sign up at the registration desk
IEM in gas - Regulators’ strategic work

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General context

- Main priorities:
  - Implementation of the 3rd Energy Package
  - Development and implementation (of Framework Guidelines and) Network Codes
- 2014 deadline for the IEM completion is soon approaching.
  → Need for strategic thinking on post-2014 aspects
- ACER develops a vision: “Energy Regulation – A bridge to 2025” – overarching strategy on key factors, challenges and possible responses for the coming years to 2025
- Part of this work is the enhancement of the electricity and gas target models

What are the main changes and challenges? How can we adapt to market realities?

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GTM and „Energy regulation – A bridge to 2025“

Interrelation between the regulatory “Bridge” and the GTM process

GTM strategic context is aligned with the Bridge 2025 gas content. The Bridge 2025 provides direction and guidance for GTM while GTM is:

- More detailed; and
- Will deliver concrete recommendations and implementation proposals.

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Background
CEER Vision for a European Gas Target Model
• Published in December 2011; developed with strong stakeholder support
• Approach: 3 pillars and recommendations

Vision for the 1st GTM in a nutshell
• Liquid hubs with sufficient and efficiently used infrastructure
• Functioning markets in all of Europe
• Ensure that gas flows to Europe
• Served as guidance for the FG/NC development

* Zones drawn for illustration. Size of zones will depend on CBA.
**Approach:** ACER is developing the update of the GTM

- Based on studies and analysis of specific areas – currently running
- In exchange with stakeholders
- Why an update?
  - Major changes of the gas market
  - Demand outlook changed
  - Flexibility role questioned

**External contribution:** expert advise and stakeholder input is key:

- ACER informal advisory panel (17 members from European associations, industry, traders, consumers, academia, EC as observer; 3 meetings)
- Stakeholder workshops and input (3 stakeholder workshops: 8 October 2013, 19 March and 15 May 2014; FSR academic workshop on GTM: 13 March 2014)
- Round table discussions
1st ACER GTM workshop – 8 October 2013

• Agreement among participants:
  • Priority: 3rd Package implementation, including development and implementation of Network Codes
  • Changes and improvements could become necessary → Given the long lead times of legislative measures, we have to start thinking ahead now
  • Need to assess and define the additional areas where possible additional (regulatory) measures are necessary
  • Consensus that the integrated European energy market can bring benefits – at the same time costs should be also analysed

FSR Gas Target Model Workshop – 13 March 2014, Brussels

• With the participation of academia, FSR sponsors, NRAs

  Discussing
  • Staking out the goal of functioning gas wholesale markets
  • Status and update of the GTM pillars 1 and 2
  • Forward market functioning
  • Evidence from price correlations btw markets: what does it mean?
  • Can business requirements be met by current markets?
  • Market connection as a booster and / or replacement of functioning home markets?

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Next steps

- In the frame of regulators’ strategic work “Energy regulation – A bridge to 2025” a Green Paper will be launched for public consultation between 29 April-15 May 2014 – final „Bridge“ document to be published in September 2014
- 3rd ACER GTM workshop, 15 May 2014, Brussels
- Final GTM to be published in September/October 2014

Stakeholder feedback is invited throughout the GTM process

- This workshop is web streamed
- Presentations will be published on the ACER website shortly
Changes in:
- Demand
- Supply
- Flexibility role

→ Reverting in significant changes in gas market characteristics
→ New challenges
→ Consequences
Demand development

Most significant decrease in electricity generation: -17%

Demand: significant decrease in electricity generation

Reasons:
- cheap coal;
- low CO2 price

Demand: replacement of gas by coal in EU electricity generation – decarbonisation?

Source: ENTSO-E, statistics, data portal
Supply: changing structure of imports to the EU


Increasing diversification of supply sources
Trade: development of gas trading on liquid hubs

Quelle: KEMA, Study on LT-ST Markets in Gas, Final Report for the EU-Commission, August 31, 2013, S. 33
International gas prices in comparison

Development of wholesale prices

Long-term contracts with oil price indexation are significantly more expensive compared to hub prices.

Quelle: EU-Kommission, Market observatory & Statistics, Quarterly Report on European Gas Markets, Q1 2013
Relevance of oil price indexation in supply contracts

Figure 4: Pricing of European gas supplies
Source: Bros, Flame 2013

Development of international gas prices

Higher EU gas price compared to US put competitiveness at risk

Source: Platts, EIA, Argus, Own Analysis
Impact of high energy prices

The US, together with key emerging economies, increases its export market share for energy-intensive goods, while the EU and Japan see a sharp decline.

Quelle: IEA, World Energy Outlook 2013
Sufficient import capacity...

- **Russland**: 7,652 GWh/d
- **Indigenous production**: 6,593 GWh/d
- **Norwegen**: 4,510 GWh/d
- **LNG**: 6,170 GWh/d
- **Speicher**: 18,139 GWh/d
- **Algerien, Libyen**: 2,155 GWh/d

Quelle: Entsog

... need to enhance optionality?
Challenges for the future gas market(s)

Truly functioning wholesale gas market

- Upstream competition
- Integrated, efficient IEM
- Infrastructure as necessary for IEM / vision

- Competitive, integrated wholesale market
- Contribution of gas to a sustainable energy mix
- Retail competition
- New usage of gas

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Ongoing work

Ongoing detailed analysis of specific areas to underpin GTM update

**GTM1 criteria analysis**
- Market zone size > 20 bcm; churn rate > 8; Number of supply source ≥ 3; HHI < 2,000; RSI > 110% (detailed analysis for BG, FR, HU, PL, ES)

**Barriers to entry**
- Functioning forward gas markets (which markets provide sufficient liquidity?)
- Market entrance barriers for new participants to EU gas markets.

**Hub functioning**
- Do the differences between European hubs create barriers to trade? E.g. organisational aspects, offered products, fees, legal status, etc.

**Congestion post CMP**
- What problems might remain?

**Sustainability**
- Situation of gas fired power plants; interviews with a number of operators in selected MS (IT, ES, DE, CZ, AT).

**Retail market competition**
- Focus on gas specific issues; taking into account the outcome of the ACER/CEER MMR 2012
## AGENDA

### 2nd ACER workshop on Gas Target Model review and update
Ljubljana, Tri republike 3, 1000 Ljubljana, Slovenia
Wednesday, 19 March 2014, 09:30-16:00

### Draft Agenda

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
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<tbody>
<tr>
<td>09:00 – 09:30</td>
<td>Registration and coffee</td>
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<tr>
<td>09:30 – 09:45</td>
<td><strong>1. Introduction</strong>&lt;br&gt;Opening remarks and workshop organisation&lt;br&gt;IEM in gas – regulators’ strategic work</td>
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<tr>
<td>09:45 – 10:30</td>
<td><strong>2. Competitive and integrated wholesale markets I</strong>&lt;br&gt;Wholesale market functioning&lt;br&gt;State of play (GTM1 criteria)</td>
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<td>Q&amp;A, discussion</td>
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<td>10:30 – 11:00</td>
<td>Coffee break</td>
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<td>11:00 – 12:00</td>
<td><strong>3. Competitive and integrated wholesale markets II</strong>&lt;br&gt;Forward markets anchub trading&lt;br&gt;How liquid are forward markets?&lt;br&gt;Functioning of gas hubs</td>
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<td>Q&amp;A, discussion</td>
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<td>12:00 – 13:00</td>
<td><strong>4. Competitive and integrated wholesale markets III</strong>&lt;br&gt;Congestion management&lt;br&gt;ACER congestion monitoring&lt;br&gt;CMP implementation</td>
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<td>Q&amp;A, discussion</td>
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<td>13:00 – 14:00</td>
<td>Lunch</td>
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<td>14:00 – 15:00</td>
<td><strong>5. Contribution to sustainability</strong>&lt;br&gt;Gas fired power generation&lt;br&gt;New challenges and obstacles&lt;br&gt;Gas fired power plant operator’s view</td>
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<td>Q&amp;A, discussion</td>
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<td>15:00 – 15:45</td>
<td><strong>6. Retail market competition in gas</strong>&lt;br&gt;State of play of retail competition in gas&lt;br&gt;ACER/CEER market monitoring&lt;br&gt;Gas consumer’s view</td>
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<td>Q&amp;A, discussion</td>
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<tr>
<td>15:45 – 16:00</td>
<td><strong>7. Conclusions and closing of the workshop</strong>&lt;br&gt;Concluding remarks</td>
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1. Besides the GTM 1 criteria, which other criteria are relevant in your view for the assessment of the functioning of wholesale gas markets?

2. What criteria are relevant and should be taken into account when assessing whether a market merger should be envisaged?

3. It is conceivable that a market with significantly less than 20 BCM total gas demand within the entry-exit zone would develop a liquidity to provide confidence for the market?
4. Can the business requirements of gas market participants be adequately fulfilled by having only a few (e.g. NBP and TTF) functioning gas forward markets in Europe (next to functioning spot markets in every market)?

5. Is the diversity in the set-up of European gas hubs a barrier to trade? Which elements should be harmonised (e.g. products, type of regulatory oversight, etc.)?
6. Do you think that the competitive situation of gas-fired power plants in comparison to coal will change in the coming years? Why?

7. What do you consider as the main difficulties / barriers for gas-fired power plants to fulfill their role as back up to intermittent renewables electricity generation?

8. Does a lack of coordination between (intraday) gas and electricity markets expose gas-fired generators to significant imbalance risks? How should coordination of gas and electricity markets (intraday) balancing markets be improved?
9. What could be specifically done to improve retail market competition for gas besides addressing issues relating to end user price regulation and consumer switching behavior? Should this be done at EU or national level?

**General questions**

10. What other issues should be considered in the process of updating the GTM?

11. Which regulatory actions are needed to ensure a well-functioning gas market, which should have the highest priority?

12. We witness uneven progress in the implementation of 3rd Package provisions and early Network Code implementation between EU Member States. In your opinion, what could be done to narrow the gap?